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SENSITIVE

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SUBJECT: DIYALA BUDGET EXECUTION DELAYED BY CIVIL STRIFE

REF: BAGHDAD 2969

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¶1. (U) This is a PRT Diyala reporting cable

¶2. (SBU) Summary: Reports on budget execution show Diyala last or near last among provinces in regard to disbursements against its 2006 and 2007 development budgets. Improvements in performance are needed and PRT Diyala is working on those it has identified. However, the major factor causing poor budget execution was the insurgency and armed conflict that brought normal life to a halt in Diyala for much of 2006 and ¶2007. Not only was project execution largely halted during that period, but work on projects that should have been initiated during the 2006-2007 period is now straining resources and slowing work on new projects approved in 2008. It is in Diyala's long-term interest to work off this backlog gradually rather than in crisis fashion, and in the process develop know-how and momentum to sustain smooth budget execution for the long-term. End summary.

¶3. (SBU) Through July 31, 2008, reports on budget execution show Diyala last or near last among provinces in regard to disbursements against its 2006 and 2007 development budgets. Diyala has still disbursed less than half of its 2006 budget and only about 20 percent of its 2007 budget. The primary reason for this poor performance is that, for a substantial period in 2006-2007, Diyala was overrun with armed conflict and insurgent attacks. Civil activity, including execution of development projects, was non-existent. Work resumed in late 2007, but, to this day, some projects are still on hold because certain areas of the province are not safe for work by contractors (reftel).

¶4. (SBU) This disruption further exacerbates Diyala's budget execution problems as is it now attempting to execute three years of projects - 2006, 2007, and 2008 - at the same time. As a result, the province's execution resources - ministry Directors-General (DGs) and their project oversight staffs, governorate oversight and accounting staff, even contractors - are stretched.

¶5. (SBU) It should be noted that, while Diyala's execution rates are lower than others, they are well above zero and increasing. Commitments are at 91 percent for 2006, 83 percent for 2007, and almost 30 percent already for 2008. This demonstrates that the Diyala contracting system is operating reasonably well. Disbursements, while low, are also advancing steadily. Disbursements under the 2006 budget more than doubled between April and June 2008. However, contractor invoices have been piling up unpaid in the Governorate Accounting Office for more than two months. As soon as these are paid, the disbursement rate will jump well over 50 percent. 2007 disbursements have gone from near zero in April, 2008 to 20 percent at the end of July. In sum,

there is every reason to expect Diyala's budget execution numbers to continue to rise steadily from now on. Had Diyala not lost much of 2006 and 2007 to conflict, there is also every reason to think that its budget execution rates would be comparable to those of other provinces.

16. (SBU) Looking beyond security-related delays in project execution, Diyala confronts a number of challenges in attempting to improve its performance:

--The GoI requirements (not unique to Diyala) to submit paperwork and obtain approvals from the Ministry of Planning and Development Cooperation (MoPDC) to receive subsequent tranches of funding from the Ministry of Finance) in order to execute capital projects.

--Lack of computerization among budget management offices.

--Lack of transparency in project accounting.

--Attempts, with strong encouragement from Coalition Forces, to de-centralize their budget management to the equivalent of district and local (qada and nahia) government levels. Despite strong desire by these officials, they lack adequate project design and management resources and their performance has been weak. --Over-loaded project execution resources among the Ministerial DGs used to oversee contractors as they try to implement three years' worth of projects (2006-2008) at the same time.

--Excessive red tape (such as the requirement for up to 20 signatures) in processing contractor invoices.

17. (SBU) PRT Diyala is working systematically with the

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provincial government to address these challenges. PRT advisors remind Diyala government officials daily of the importance of rapid budget execution to improve the lives of the people of Diyala. In addition, the PRT is:

--Buying computers for the Diyala government (just completed) and funding computer training over the coming months. Also scheduling USAID contractor RTI to present its new provincial budget management software (GAPTIS) for review and possible adoption by the Diyala government.

--Encouraging the use of computerized spreadsheets for monitoring project execution and invoice payments, and broadening of dissemination of those spreadsheets.

--Working to stimulate dialogue among all levels of local governance, as well as among various elements of the PRT and ePRT, to reach consensus on budget consultation and coordination procedures that strike a good balance between inclusiveness and effectiveness.

--Funding additional project execution oversight staff to work in the qadas and nahias and encouraging ministerial DGs to seek approval from Baghdad to expand their project management staffs.

--Encouraging Diyala government officials to try to simplify their invoice-processing machinery (but not at the price of transparency and resistance to corruption).

18. (SBU) Comment: Budget execution is really a synonym for governance. Improving it means strengthening virtually all elements of multiple levels of government. This will take time, and PRT Diyala is working to help the Diyala government expand its capacity and with emphasis on strengthening management practices that will serve the governorate well over the long term. End comment.

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